

## LCGCC Recommendations submitted by Todd Wooten - February 5, 2010

### MEMORANDUM

**To:** Members of Legislative Commission on Global Climate Change (LCGCC)  
**From:** Todd Wooten  
Director  
Southeast Climate Resource Center  
Nicholas Institute for Environmental Policy Solutions  
**Date:** January 20, 2010  
**Re:** Establishment of North Carolina Offset Protocols

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The LCGCC begins this year looking to wrap up its work in order to move on to the next phase; increased involvement from legislators ultimately leading up to significant legislative action. The Commission has compiled many different recommendations and will likely be looking to put those in to a document that can advise and aid legislators as they develop legislative text. The Commission could, though, undertake more than a compilation of ideas it believes should be a part of a North Carolina climate program.

I would encourage the Commission to consider spending this year developing guidance for legislators to implement a North Carolina offset registry. At the last meeting of the LCGCC, Professor Victor Flatt responded to a question concerning offset potential in North Carolina by noting that a regional approach to developing offset protocols could be more practical than a national one. He added that there was no reason why the center of the offset universe in the Southeast should be in Atlanta as opposed to Raleigh or Charlotte.

What follows is a breakdown of the benefits and challenges for the LCGCC should it choose to take this course. Establishing a Southeastern offset registry in North Carolina could spur tremendous investment in Southern agriculture and forestry projects. EPA or USDA is likely to have significant difficulty developing the sheer number of protocols necessary to register viable projects. Established programs will likely have an opportunity to submit their protocols as definitive for a region, or at minimum, stand-ins for registering projects until EPA or USDA can develop their own.

#### **Economic Opportunities and Relation to Federal Action**

The development of a North Carolina offset registry has the potential to provide significant economic stimulus to the state, both in the short and long term. Currently, investment in offset projects is hindered by the uncertainty around which projects will actually receive credit in a federal system. Investors are reluctant to put significant capital in to a project that ultimately may not be accredited by the federal government. Many different registries exist, with a few having close relationships to state or regional governing bodies. It is likely that registries connected to government entities will receive some sort of recognition from the federal government. Investment has increasingly

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flowed to these registries such as the Climate Action Reserve (CAR), initially set up in California, but now expanded to take in offsets from other states.

Currently, California is leading the way in protocol development. As one might expect, Southeastern forestry and agriculture are not at the top of the list for project development under those standards. Though California will register projects across the country, first and foremost, they are concerned with developing protocols for projects in their state or projects that are acceptable to the varying constituencies within the Western region. Many believe that CAR recognizes this and will ultimately seek to establish protocols for different geographical regions. However, it is also possible that CAR could seek to adopt protocols initiated by other states. This would save CAR a great deal of time and likely garner greater political support for adopting CAR protocols as national standards. State involvement is key toward building political momentum for acceptance and for giving investors certainty.

Most recent bills put before Congress addressing climate change have proposed to accept credits automatically from registries connected to state or regional organizations. Legislators chose to do this for a number of reasons. To begin with, there are significant concerns that when a federal climate program comes online, the demand for offsets will outstrip the supply. While the offset market is growing, it is not where many believe it will need to be when emissions reductions become mandatory. By immediately “grandfathering” all government-based allowances, Congress is attempting to give some breathing room prior to developing federal protocols.

Many also believe that EPA will have difficulty developing all the protocols necessary for offset projects that currently exist. These would just be protocols for existing projects. EPA would also be responsible for developing protocols for new projects that will emerge following implementation of a federal program. In all likelihood, EPA will survey the landscape of protocols and adopt or build off of protocols that it finds acceptable. A protocol that has registered projects across an entire region will be particularly attractive to EPA. If a region has not developed protocols, they run the risk that protocols from other regions will be adopted as national standards.

### **Politics**

Because addressing climate change requires action from many different sectors and effects nearly all aspects of the economy, figuring out a way to unite the various constituencies has proven difficult. Offsets are one of the few issues that can unite agriculture, utilities, and environmental NGO's. This is because offsets provide new market opportunities for industries that believe they will only see higher input costs (such as ag) and serve to lower the overall cost of a bill by providing cheaper ways to reduce emissions. To get buy in from environmental NGO's, the standards for issuing offsets must ensure that the reductions are real, measurable, verifiable and additional.

This is not say it would be easy. A tension exists between the environmental desire to err on the side of fewer offsets but of the highest quality and the business side

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that would like adequate compensation for all practices they undertake that reduce carbon emissions, presumably lowering the economic costs of the overall bill. Both arguments have merit. If offsets are of low quality, than the emissions reductions they represent ultimately may not be real, undermining the integrity and purpose of the entire climate program. However, fewer offsets means higher prices for carbon credits, translating to higher fuel costs for consumers and likely slowing economic growth.

Recent action at the federal level suggests that there is a level upon which both can agree. A bill establishing an offset program introduced by Senator Debbie Stabenow of Michigan has garnered positive feedback from both the American Farm Bureau and The Nature Conservancy. The United States Climate Action Partnership (USCAP), with members ranging from the Natural Resources Defense Council to Duke Energy, to BP has issued a paper describing the their vision of a proper offset program. This uniting of formerly diverse groups is only likely to increase as the business community realizes the impact offsets can have on lowering costs and the environmental community sees the impact offsets can have on lowering emissions.

The LCGCC has an ideal membership to take up this issue. The major stakeholders are already members, including forestry and agriculture, unlike the Energy Policy Council.

### Structure for Commission Action

Should the Commission agree that this an initiative that it would like to undertake, I have worked with my colleagues at the Nicholas Institute to come up with what we believe would be an appropriate start to the process. We would recommend that part of the next few meetings of the LCGCC be devoted to presentations on the background and economic opportunities of state and regional offset projects.

### February

- Presentations on the background and economic opportunities of state and regional offset projects.
- Possible presenters:
  - o **Kyle Danish:** Kyle Danish is an attorney with the law firm Van Ness Feldman in Washington, D.C. He is one of the leading attorneys on climate change and specifically offsets in the country. He has worked with numerous clients including CAR to develop offset projects.
  - o **Nathan McClure:** Nathan McClure is the Chief Forester for the Georgia Forestry Commission. He has been heavily involved with Georgia's efforts to develop forestry offset protocols. This is the only current initiative of its kind going on within the Southeast region.
  - o **Alec Giffen:** Alec Giffen is the Maine State Forester. He has had significant involvement with the Regional Greenhouse Gas Initiative.
- Follow-up and next steps:

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- Gauge commission members interest in carrying on with project and any initial impressions they have following the meeting.

### March

- Presentations from various registries on different approaches to building a registry
- Possible presenters:
  - **Gary Gero:** Gary Gero serves as the President of the California Climate Action Registry where he is responsible for overseeing the development and implementation of the organization's policy and programs. This includes working to ensure the organization's activities meet the highest standards for quality, transparency and environmental integrity and leading the establishment of the a voluntary offset project registry, the Climate Action Reserve.
  - **David Antonioli:** David is the CEO of the Voluntary Carbon Standard, considered one of the leading voluntary registering organizations. Work to develop the Voluntary Carbon Standard was initiated by The Climate Group, the International Emissions Trading Association and the World Economic Forum in late 2005.
  - **Potential Investors in Offset Projects in North Carolina**
- Follow-up and next steps:
  - Determine which approach commission members would like to take, i.e. link up with existing program, establish new program.
  - Determine what information is needed from various state agencies and charge them with reporting back to the Commission at the following meeting.

### April

- Presentations from various state agencies on data requested to begin development of offset protocols
- Follow-up and next steps:
  - Determine gaps in information and possible sources
  - Begin developing list of protocols